

TRANSCO REVIEW GROUP REPORT

"Review of NDM demand forecasting methodology"

Version 1.0

Review Group

Review Group 0567 Review of NDM forecasting methodology **Interim Modification Panel Report 17 October 2002**

1. Summary

Review Group 0567 was convened to examine NDM demand forecasting methodology in response to the removal of forecast deviation on 1 October 2002 as set out in modification 0511. Its remit is to consider demand forecasting methodology including the merits or otherwise of Users using their own demand forecasts, provision of information to and from Users and the basis of demand forecasts.

A commitment was given by the Review Group to provide an interim report to the October Modification Panel for its consideration. Whilst progress has been made in clarifying the issues, the Group considers that further work is required before any conclusions can be drawn. It is therefore proposed that the Review Group continues its examination of NDM demand forecasting and reports its findings to the December Modification Panel.

2. Meetings Held

Thursday 12 September
Tuesday 24 September
Friday 4 October
Friday 11 October

3. Progress to date

The Review Group has concentrated efforts on information flows from Transco and determination of the imbalance position, looking in particular at the current D+5 Model and imbalance determination ahead of and within day as well as through reconciliation.

3.1 Imbalance models

The group looked in some detail at the merits of fixing the imbalance position based on a forecast either before or within day as it reduced shipper cashout risk considerably and potentially provided more time for Users to manage their gas flows. In this model Transco would take on a more significant role in balancing the system, the costs of which would be shared between Users. Whilst the model will be debated further within the group it is recognised that Ofgem are unlikely to agree to this approach as it runs counter to the direction of the regulatory regime.

Work has also been carried out on the issues arising from calculating the imbalance based on reconciled values in a similar way to that carried out by the electricity industry. Additional work will be required before any conclusions can be drawn.

3.2 Short and Medium term issues

Since Ofgem's rejection of Modification 0563, the group has considered short to medium term enhancements to the current regime, with particular focus on additional information provision by Transco. This has manifested itself in reviewing current attribution methodology, provision of forecast information and additional attribution runs.

The current attribution methodology has been examined with regard to the impact of DM's in both forecast and allocation modes and indications are that better DM nominations would have an impact on NDM aggregate forecasts. In most LDZ's there is a tendency for Users to over nominate DM's, although the impact on NDM forecasts is small. The effect of LDZ metering and DM resynchronisations on LDZ allocations at D+5 is also currently being examined to determine any influence this may have on NDM final allocations.

For those Users who intend to self forecast demand Transco has been asked to supply by LDZ, NDM and DM forecast and actual demand data and is currently investigating whether this can be provided. The group has also asked Transco to consider issuing a further within day demand attribution run following the current latest run at 16.00 on the day. Both initiatives are being investigated, although due to serious AT Link performance issues it is unclear when this could be achieved. Transco is currently addressing the position with AT Link and is examining various mechanisms to provide information to Users that would assist with forecasting.

Transco has indicated that it may be possible to provide aggregate LDZ DM nominations at each attribution run which would allow Users to calculate the LDZ NDM aggregate forecast demand and together with existing information, estimate their own NDM forecasts. In addition Transco is examining the possibility of providing LDZ demand forecasts (not an attribution run) at 20:00/21:00hrs, which could be used to predict changes to earlier attribution runs.

Work will continue on these potential solutions whilst the Review Group considers User requirements with regard to forecasting and information flows.

3.3 Cashout

The group have discussed cashout in the context of imbalance and reconciliation differentials, costs to NDM shippers and potential cross subsidy to DM shippers through removal of forecast deviation. More work is still required in this area.

4. Next steps

Whilst the Review Group will continue to consider longer term forecasting and imbalance determination, the focus will move towards short term solutions to address Users immediate concerns with regard to forecasting and minimizing exposure to forecast deviation.

The Group will therefore concentrate on:

Provision of extra information to and from Users and Transco.

Mechanisms to improve forecast accuracy

The basis on which Users want to proceed with forecasting

Forecasting and Imbalance incentives

5. Meetings Schedule

Thursday 24 October
Tuesday 5 November
Thursday 14 November
Tuesday 26 November